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FEB 25 1970

Dear Mr. Chairman:

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In accordance with your request dated August 29, 1969, and subsequent discussions with your Committee Counsel, we have reviewed the sharing agreements in effect between the Birmingham Veterans Administration (VA) Hospital and the University of Alabama Medical Center and between the Indianapolis VA Hospital and the Indiana University Medical Center Hospitals.

Regarding these sharing agreements, you requested that we obtain information similar to that requested in your letter of April 21, 1969, and that the information be consistent with the type of information presented in our letter to you dated August 26, 1969, B-166870, concerning the sharing agreements at the Oklahoma City, Oklahoma, and Denver, Colorado, VA Hospitals.

Your letter dated April 21, 1969, requested that we test the accuracy of the reports submitted to the Congress by the VA on the activities carried out under sections 5053 and 5054 of Title 38, United States Code, and ascertain the extent of cooperation between the medical school hospitals and the VA hospitals. Also, you expressed interest in (1) the degree and effectiveness of the collection procedures instituted by the parties to the sharing agreements, (2) the current status of monies collected to date, for what services, and by whom, and (3) whether renal dialysis services are available to the general public in any other hospital or clinic in the areas of the VA hospitals to be reviewed and, if so, the current charges for these services.

Our review, which was performed during the period October 1969 through January 1970, was conducted at the VA hospitals in Birmingham, Alabama, and Indianapolis, Indiana, and at the VA Central Office in Washington, D.C. The results of our review follow.

AGREEMENTS IN EFFECT

As of September 30, 1969, there was one agreement in effect between the Birmingham VA Hospital and the University of Alabama Medical Center (University). This agreement, referred to as an

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"exchange of use" agreement, provides that certain medical services will be provided to VA patients at the University hospital and that certain medical services will be provided to University hospital patients at the VA hospital.

Also, we found that, as of September 30, 1969, the Indianapolis VA Hospital had one "mutual use" agreement with the Indiana University Medical Center Hospitals. This mutual use agreement provides for patients of the Indiana University Medical Center Hospitals to use a VA resource which otherwise might not be used to maximum capacity but the agreement does not provide for services to be provided to VA patients at the Indiana University Medical Center.

Further information regarding these agreements is contained in enclosure I.

ACCURACY OF ANNUAL REPORTS

Our review of the accuracy of the information relating to the VA hospitals in Birmingham and Indianapolis, as contained in VA's annual reports to the Congress on sharing of medical facilities for fiscal years 1968 and 1969, showed that the dollar amounts reported as costs incurred by these VA hospitals were not necessarily the costs of services rendered but rather were amounts billed as of June 30, 1968, and June 30, 1969. In addition, we noted various accounting and mathematical errors which resulted in incorrect amounts being reported for these VA hospitals in the VA annual reports. Even though most of these errors were relatively minor, in one instance charges for services received by one VA hospital were understated by about 14 percent. These annual reports were submitted to the Congress by the Administrator of Veterans Affairs pursuant to section 5057 of Title 38, United States Code.

The fiscal year 1968 annual report on sharing of medical facilities showed that the Birmingham VA Hospital had rendered services to the University totaling \$6,278. Our review showed, however, that the actual charges to the University for services rendered were \$6,118. We noted that an adjustment of \$25 was made after June 30, 1968. We

were unable, however, to determine the reason for the remaining difference of \$135 between the amount reported and the actual charges because VA hospital supporting working papers for the fiscal year 1968 report were not available.

The annual report for fiscal year 1968 showed that the Birmingham VA Hospital had received services totaling \$29,292 from the University, but VA hospital officials were unable to support this amount. The Birmingham VA Hospital's records showed, however, that the amount reported should have been \$30,714, which represents actual disbursements of \$21,514 and an accrual of \$9,200 for services received but not paid for in fiscal year 1968. The Chief, Fiscal Division, Birmingham VA Hospital, agreed that the amount of \$30,714 should have been reported as the costs for services received from the University. He stated, however, that he was unable to determine the reason for the \$1,422 understatement in the reported amount.

The annual report for fiscal year 1969 showed that services rendered by the Birmingham VA Hospital to the University during the year totaled about \$46,857, whereas our review showed that the amount reported should have been \$46,875. The Chief, Fiscal Division, stated that the difference of \$18 was apparently due to a transposition error. The fiscal year 1969 report showed that the Birmingham VA Hospital had received services totaling \$97,517 from the University. The VA hospital's records showed, however, that the amount reported should have been \$110,785. The difference of \$13,268 was due to excluding, from the amount reported, charges for services received in fiscal year 1969 which were not paid until fiscal year 1970 and to various accounting errors.

The fiscal year 1969 report showed that the Indianapolis VA Hospital had rendered services to the Indiana University Medical Center totaling \$35,774.90. The VA hospital's billings showed, however, that actual charges to Indiana University Medical Center for services totaled \$35,823.33.

The Chief, Medical Administration Division, Indianapolis VA Hospital, stated that the \$48.43 understatement in the reported amount

probably occurred because either a bill was overlooked or a bill was corrected after the hospital had submitted its information on sharing activities to the VA Central Office for use in preparation of the VA annual report to the Congress. In addition, we noted that charges of \$300 for services rendered to the Indiana University Medical Center during fiscal year 1969 had not been billed as of June 30, 1969. After we brought the unbilled charges to the attention of VA hospital officials, the VA hospital billed the Indiana University Medical Center for the \$300 on October 9, 1969.

Cost of services provided

Section 5053(b) of Title 38, United States Code, provides that agreements for sharing of medical facilities include provisions for reciprocal reimbursements based on charges which cover the full cost of services rendered, supplies used, and normal depreciation and amortization of equipment costs.

Our review showed that the VA cost records did not contain data regarding the cost of providing individual medical services. We were informed by Birmingham and Indianapolis VA Hospital officials that charges for services rendered were considered to approximate the costs of providing the services and that the charges were determined on the basis of (1) VA Central Office directives, (2) private hospital charges for providing comparable services, and (3) cost estimates by the VA hospital Chief of Staff.

Because the cost of providing individual medical services at the Birmingham VA Hospital was not available, we evaluated the reasonableness of the charges for providing several types of services on the basis of interviews with (1) the medical personnel concerning the services and supplies provided and (2) the fiscal personnel concerning depreciation of equipment.

We found that Birmingham VA Hospital personnel had not considered depreciation costs of equipment in establishing charges for VA hospital services provided under the sharing agreement. The hospital director advised us at the time of our review that he was unaware of

the requirement that charges for services provided were to cover depreciation of equipment costs.

Because Birmingham VA Hospital officials had not considered such depreciation costs in establishing the charges for services, we estimate that the charge for cardiac catheterization was about \$100 less than our estimated cost of providing the service. Our evaluation of the charges for other services showed that some of the charges established would generally cover depreciation of equipment costs as well as other costs even though such depreciation costs were not considered in establishing the charges.

Further information regarding the charges for services rendered by the Birmingham VA Hospital and the University and our estimates of the costs of providing the services are contained in enclosure II.

We were not able to determine from the records maintained by the Indianapolis VA Hospital the actual cost of services rendered under the sharing agreement with the Indiana University Medical Center. In May 1968, however, the Indianapolis VA Hospital conducted a study which showed that the average cost per renal dialysis treatment would be \$69.47, when the treatments were provided over a period of 1 year. We have estimated the cost of a lesser number of treatments on the basis of the cost data shown in the VA hospital study because the VA hospital does not accept Indiana University Medical Center patients requiring treatments over a long period of time.

The VA hospital study showed that the cost of the first renal dialysis treatment was \$171.99 but that, with each successive treatment, the average cost per treatment would decrease due to the proration of nonrecurring costs. Of the total costs of the first treatment, the nonrecurring costs amount to \$103.52 and the recurring costs per treatment amount to \$68.47. The total costs for two renal dialysis treatments, therefore, would be \$240.46 ($\$103.52 + \$68.47 + \68.47), or an average cost of \$120.23 per treatment.

The VA hospital, in accordance with VA Central Office instructions, charges \$150 for each renal dialysis treatment provided to the

Indiana University Medical Center patients. Regarding the charge for renal dialysis treatment, VA Central Office officials stated that the rate of \$150 had been established about 3 years ago by VA Central Office officials in Medical Administration and Professional Services, who at that time, had little experience with such treatments upon which to base the charge. VA Central Office officials have informed us that they are planning to develop nationwide sample costs for about 15 specialized services of which renal dialysis is one to be studied.

VA's medical care cost accounting system provides an average daily patient-care cost, or per diem cost, for each of the three major types of patients--medical, surgical, and psychiatric--as well as for 10 categories of medical patients, two categories of surgical patients, and two categories of psychiatric patients. Because the per diem rates established by the cost accounting system do not include depreciation of equipment, a cost factor for such depreciation would have to be added to the rates to arrive at actual patient-care costs.

Our review showed that the actual medical per diem cost as compiled under the medical care cost accounting system for the Birmingham VA Hospital for fiscal years 1968, 1969, and the first quarter of 1970 exceeded the per diem rates established annually by the VA Central Office. In addition, our review showed that the actual medical and surgical per diem costs as compiled under the cost accounting system for the Indianapolis VA Hospital for the first quarter of fiscal year 1970 exceeded the charges stipulated in the sharing agreement. (See enc. III.) In addition, we noted that the Indianapolis VA Hospital charged a lesser per diem rate during fiscal year 1969 than the rate established by the VA Central Office. Further, the Birmingham and Indianapolis VA Hospitals are charging a lesser per diem rate in fiscal year 1970 than the rate established by the VA Central Office. Therefore, if the reported per diem costs are accurate, the Birmingham and Indianapolis VA Hospitals are losing revenue for certain inpatient days of care provided under their sharing agreements.

VA Central Office officials have informed us that the per diem rate established for sharing agreements is based on the per diem rate established by the Bureau of the Budget (BOB) for uniform application

for all Federal agencies making charges to non-Federal beneficiaries for medical services they received in Federal hospitals. However, VA Central Office officials have advised us that the Administrator of Veterans Affairs has requested the Office of the Controller and the Office of Management Engineering and Evaluation to form a task force to study alternatives to the present procedures followed in establishing charges under sharing agreements.

We have been informed by VA Central Office officials that the task force has held informal discussions in which it has been suggested that use of the actual inpatient per diem rates as compiled under the medical care cost accounting system of an individual hospital rendering a service plus a factor for depreciation of equipment might result in a better approximation of actual cost than is presently obtained from using the per diem rate established by BOB.

Therefore, because VA is in the process of analyzing the costs incurred and the charges made under its sharing agreements, we have not attempted to develop actual cost data at the Birmingham and Indianapolis VA Hospitals relating to the sharing agreements.

EXTENT OF COOPERATION

VA hospital officials in Birmingham and Indianapolis stated that no major problems had been encountered concerning cooperation among parties to the sharing agreements. The Director and the Chief of Staff of the Birmingham VA Hospital informed us that cooperation between the VA hospital and the University in meeting patient needs was excellent. The Acting Director of the Indianapolis VA Hospital stated that he could not recall any disputes regarding any aspect of the hospital's sharing agreement with the Indiana University Medical Center.

DEGREE AND EFFECTIVENESS OF COLLECTION PROCEDURES

Our review showed that the collection procedures in effect at the Birmingham and Indianapolis VA Hospitals were adequate to help ensure collection of the amounts due for services rendered by the hospitals

under the sharing agreements. We have noted, however, that, unlike the terms of the Oklahoma City VA Hospital sharing agreement discussed in our prior letter dated August 26, 1969, B-166870, the Birmingham and Indianapolis VA Hospitals assume no responsibility for collection of charges from the University or Indiana University Medical Center patients for services received by the VA hospitals under the sharing agreements.

We noted that a total of \$4,588.20 and \$3,463.50 was due the Birmingham and Indianapolis VA Hospitals, respectively, as of September 30, 1969. We noted further that bills for services rendered by the VA hospitals were generally not outstanding for more than 45 days.

CURRENT STATUS OF MONIES COLLECTED, FOR
WHAT SERVICES, AND BY WHOM

The Birmingham VA Hospital's records showed that the services rendered to the University from inception of the sharing agreement through September 30, 1969, totaled \$62,904.72. As of that date, the charges for services rendered by VA which the University had refused to pay, the amounts collected from the University, and the charges for services which were offset against payments due the University totaled \$58,316.52, which left a balance of \$4,588.20 due VA from the University. (See enc. IV.)

The Birmingham VA Hospital's records showed also that the University had rendered services to the VA hospital from inception of the sharing agreement through September 30, 1969, totaling \$177,014. As of that date, the amount paid by the VA hospital plus the amount offset against payments due the University totaled \$157,364. The balance of \$19,650 represented unbilled services rendered by the University prior to September 30, 1969. (See enc. V.)

The Indiana VA Hospital's records showed that the VA hospital had rendered services to the Indiana University Medical Center totaling \$41,386.33 from inception of the sharing agreement through September 30, 1969. Of this amount, \$300 represented charges for which bills had not been submitted for payment. As of September 30, 1969,

the Indiana University Medical Center had paid the VA \$37,922.83, which left a balance of \$3,463.50 due the VA. (See enc. VI.)

RENAL DIALYSIS SERVICES

We found that both the Birmingham and Indianapolis VA Hospitals charge \$150 for each renal dialysis treatment as prescribed in VA Department of Medicine and Surgery Circular 10-69-160. As indicated on pages 4 through 7 of this letter, we were unable to determine whether the amounts charged by VA for services provided were sufficient to recover the actual costs incurred because VA's cost accounting records do not provide detailed data on the cost of providing certain medical services.

We found that private hospitals, other than the University, in the Birmingham area, did not provide renal dialysis services. The University's estimate of the cost of a renal dialysis treatment ranges from \$132 to \$160, for which a private patient would usually be charged about \$180 a treatment. On the basis of a VA hospital official's study of the cost of providing renal dialysis treatments, we estimate that the cost of providing the initial renal dialysis treatment would be about \$158 and that the cost of each treatment would be about \$110.

During our review of renal dialysis services available in the Birmingham area, we contacted the Jefferson County Medical Society and were informed by the Executive Secretary that a proposal to organize a nonprofit organization to provide renal dialysis services to several hospitals in the Birmingham area was being considered, and that under this arrangement, a patient being treated would be charged \$150 a treatment.

We found that private hospitals in the Indianapolis area which provide renal dialysis services (Long Hospital, part of the Indiana University Medical Center, and Methodist Hospital of Indiana) also charge \$150 for renal dialysis treatments. We were advised by officials of these hospitals that charges for renal dialysis treatments could vary if a patient required more than the normal 8 hours of treatment.

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The matters discussed in this letter were not presented to the VA for its review and comment, however, we believe that the letter should be furnished to the VA for its consideration because of the management weaknesses disclosed during our review.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of this report.

Sincerely yours,


Comptroller General
of the United States

Enclosures - 6

The Honorable Olin E. Teague, Chairman
Committee on Veterans' Affairs
House of Representatives

LISTING OF SHARING AGREEMENTS
 IN EFFECT AT VA HOSPITALS IN
 BIRMINGHAM AND INDIANAPOLIS

<u>Parties to sharing agreement</u>	<u>Type of agreement and medical resources shared</u> (exchange of use)	<u>Effective date</u>
VA hospital, Birmingham, Alabama, and University of Alabama Medical Center	Radiation therapy, main- tenance hemodialysis, open heart surgery, and special laboratory proce- dures furnished by the University; cardiac cath- eterization, esophageal motility procedures, spe- cial laboratory proce- dures, kinetocardiograms, and cardiovascular exer- cise laboratory furnished by VA	4-1-68
	Kidney transplantation furnished by VA; added to agreement	5-21-68
	Cardioversion procedures furnished by VA; added to agreement	12-1-68
(mutual use)		
VA hospital, Indianapolis, Indiana, and Indiana Uni- versity Medical Center Hospitals	VA to furnish renal dial- ysis services and care before and after kidney transplants	7-19-68

SCHEDULE OF CHARGES FOR SERVICES RENDERED
 BY THE BIRMINGHAM VA HOSPITAL AND THE
 UNIVERSITY OF ALABAMA MEDICAL CENTER
 AND GAO'S ESTIMATES OF THE COSTS OF
 PROVIDING THE SERVICES UNDER THE
 SHARING AGREEMENT

<u>Type of service</u>	<u>Charge according to agreement</u>	<u>GAO cost estimates</u>	<u>Comments</u>
Provided by University			
1. Radiation therapy	\$175 a program	\$148 a program	The charge of \$175 is based on an estimate of 20 to 25 treatments at \$7 50 a treatment We found that patients averaged 19 8 treatments each
2. Maintenance renal dialysis	\$150 a treatment	\$132 to \$160 ^a per treatment	The charge of \$150 is the same as the VA hospital charge for renal dialysis as established by the VA Central Office
3. Heart surgery	\$950 basic charge	-	\$950 is reported to be based upon a study of actual cost
Provided by VA hospital.			
1 Cardiac catheterization	\$100 or \$175	\$200 or \$275	Depreciation of equipment was not considered in establishing the charge
2 Esophageal motility procedures	\$25 a procedure	\$12 a procedure	The charge is based on the Mayo Clinic rate for this service
3 Kinetocardiograms	\$10 a procedure	\$12 a procedure	Rates were established on the basis of a VA doctor's estimate.
4. Cardiovascular exercise laboratory	\$10 a procedure	\$10 a procedure	Do
5 Kidney transplantation			
Basic charge	\$150	Undetermined	\$150 is reported to be comparable to the University rate for operating room.
Renal dialysis	\$150 a treatment	\$158 for initial treatment and \$110 for each successive treatment	Rate of \$150 was established by VA Central Office

^aThis is the University's estimate of cost, and we did not evaluate its estimate

PER DIEM CHARGES ESTABLISHED, CHARGES MADE, AND
HOSPITAL PER DIEM RATES, BIRMINGHAM
AND INDIANAPOLIS VA HOSPITALS
FISCAL YEARS 1968, 1969, and 1970

Fiscal year	Per diem rate es- tablished by VA	Sharing agreement per diem rate charged by		Actual per diem rates reported by the VA hospitals			
				Birmingham		Indianapolis	
				Medical	Surgical (note a)	Medical	Surgical
1968	\$45.00	\$45.00	(b)	\$47.17	\$44.88	-	-
1969	49.00	49.00	\$48.00	50.46	47.40	\$41.17	\$46.90
1970	53.00	49.00	48.00	57.35	51.76 ^c	48.34	52.85 ^c

^aSurgical per diem rate is lower than the medical per diem rate primarily because of lower support costs, such as the lower cost of research applicable to the cost of treating surgical patients.

^bNo agreement in effect at the Indianapolis VA Hospital during fiscal year 1968.

^cPer diem rate for the period July 1, 1969, to September 30, 1969.

SCHEDULE OF MONIES COLLECTED AND
SERVICES RENDERED BY THE BIRMINGHAM VA HOSPITAL
UNDER ITS SHARING AGREEMENT WITH THE
UNIVERSITY OF ALABAMA MEDICAL CENTER
DURING THE PERIOD APRIL 1, 1968,
THROUGH SEPTEMBER 30, 1969

Amount of billings for services provided the University	\$63,944.70
Less errors in billings	<u>1,039.98</u>
Total	62,904.72
Less:	
Unauthorized service for which pay- ment was refused by the Univer- sity	\$ 450.00
Payments by the University to VA	55,259.32
Offsets in lieu of payments--ser- vices rendered by the University to VA	<u>2,607.20</u> <u>58,316.52</u>
Amount not collected as of September 30, 1969	<u>\$ 4,588.20</u>

Services Rendered by VA to University Patients

<u>Type of service rendered</u>	<u>Number of patients</u>	<u>Outpatient visits</u>	<u>Inpatient days of care</u>
Cardiac catheterization	85	85	(a)
Esophageal motility	99	100	(a)
Kinetocardiograms	113	113	(a)
Cardiovascular exercise	6	6	(a)
Kidney transplantation	20	60	629
Renal dialysis	5	5	(b)

^aPatients are usually transported between hospitals via connecting corridor and are not considered inpatients.

^bGiven in connection with kidney transplants.

SCHEDULE OF MONIES PAID AND SERVICES
RECEIVED BY THE BIRMINGHAM VA HOSPITAL
UNDER ITS SHARING AGREEMENT WITH THE
UNIVERSITY OF ALABAMA MEDICAL CENTER

DURING THE PERIOD APRIL 1, 1968, THROUGH SEPTEMBER 30, 1969

Amount of billing for services provided by the University to VA	\$177,014.00
Less:	
Payments by VA to the University	\$154,756.80
Offsets in lieu of payments-- services rendered by VA to the University	2,607.20
	<u>157,364.00</u>
Amount not paid by VA (unbilled) as of September 30, 1969	\$ 19,650.00

Services Rendered by the University to VA Hospital Patients

<u>Type of service rendered</u>	<u>Number of patients</u>	<u>Inpatient days of care</u>	<u>Number of treatments</u>
Radiation therapy	212	-	4,192 ^a
Maintenance renal dialysis	4	-	57 ^a
Heart surgery	47	13	47 ^b

^aPatients are usually transported between hospitals via connecting corridor and are not considered inpatients.

^bBasic charge includes 4-bed, semiprivate accommodations.

SCHEDULE OF MONIES COLLECTED AND
 SERVICES RENDERED BY THE INDIANAPOLIS
 VA HOSPITAL UNDER ITS SHARING AGREEMENT
 WITH THE INDIANA UNIVERSITY MEDICAL CENTER
 DURING THE PERIOD JULY 19, 1968,
 THROUGH SEPTEMBER 30, 1969

Amount of billings for services rendered	\$41,086.33
Unbilled services	<u>300.00</u>
Total	41,386.33
Less amount collected by VA	37,922.83
Amount not collected as of September 30, 1969	<u>\$ 3,463.50</u>

Services Rendered by VA to the Indiana
 University Medical Center Patients

<u>Type of service rendered</u>	<u>Number of patients</u>	<u>Outpatient visits</u>	<u>Inpatient days of care</u>
Renal dialysis services (note a)	5	1	14 ^b
Care before and after kidney transplants	10	-	599
Outpatients services (note a)	9	154	-
Services rendered by the Indiana Univer- sity Medical Center to VA patients: None			

^a Furnished in conjunction with kidney transplants.

^b While still in the VA hospital, five patients received a total of 14 renal dialysis treatments.